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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

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In the Matter of	)	
	)	
Expanded Interconnection with Local Telephone Company Facilities	)	CC Docket No. 91-141
	)	
Amendment of the Part 69 Allocation of General Support Facilities Costs	)	CC Docket No. 92-222

COMMENTS ON GENERAL SUPPORT FACILITY COSTS

Teleport Communications Group ("TCG") provides the following comments on the Commission's proposal to change the allocation of General Support Facilities costs.

In its October 19, 1992 Order,[1] the Commission concluded that the only "support flow" in the current Special Access category is an over-allocation of General Support Facilities ("GSF") costs.[2] The Commission found that it could not specifically identify the amount of support contained in the LECs' DS1 and DS3 rates.[3] The Commission stated, however, that it believed the amount of support in those rates had declined relative to other services, since the LECs have continually reduced the prices

1. See Expanded Interconnection with Local Telephone Company Facilities and Amendment of the Part 69 Allocation of General Support Facility Costs, CC Docket Nos. 91-141 and 92-222, Report and Order and Notice of Proposed Rulemaking (released October 19, 1992) ("Order").

2. Order at ¶ 147. The over-allocation is caused by the Commission's Part 69 access charge rules, which do not allocate any GSF costs to local subscriber lines. See § 69.307.

3. Order at ¶ 148.

of these services while increasing or holding steady the rates for other Special Access services.[4] Because it believed that the use of a specific "contribution" rate element was unwise, the Commission favored a modification of its rules that would allocate GSF based on all investment, thus eliminating the under-allocation to subscriber line costs.[5]

TCG agrees with the Commission that the appropriate response to the alleged mis-allocation of GSF costs is to fix that allocation on a prospective basis, rather than create a contribution element. The more important question is how this reallocation should be reflected in rates.

As the Commission properly recognizes, the DS1 and DS3 rates of the LECs have been substantially reduced in recent years, and thus it is likely that these rates no longer carry the same share of GSF costs as they once did, or as much of a share as other Special Access services still do.[6] Accordingly, the mis-allocation of GSF costs may have a relatively limited impact on LEC pricing of DS1 and DS3 services. LECs will, however, have an incentive to flow through a disproportionate share of the GSF cost savings to the portions of the market where the effects of competition are now beginning to be felt, most particularly in the DS1 and DS3 rates.

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4. Id.

5. Order at ¶ 243-245.

6. For example, the DS1 and DS3 rates of many LECs are at or very close to the bottom limit of their pricing sub-indices, while their rates for voice grade and audio/video services are often at the middle or top of the range.

Such a result is inappropriate for several reasons. First, the burden of supporting GSF costs has been borne through the rates paid by all Special Access customers, and indeed the voice grade, DDS and audio/video customers have continued to support a larger share of those costs as the rates paid by DS1 and DS3 services have declined. If the GSF cost allocation is not implemented in a way that benefits all Special Access customers, then those users will continue to be unfairly burdened with rates just as high as those which contained GSF support, and will receive no benefit from the reallocation of these costs.

Second, the LECs will have obvious incentives to push as much of these cost reductions as possible into DS1 and DS3 rates, even if those rates no longer contain substantial support of GSF costs. Such a result will have anti-competitive effects, since it will allow the LECs to implement excessive rate reductions on the eve of competition.

In order to avoid these undesirable results, TCG suggests that GSF savings be flowed through proportionately to all Special Access users, so that all users receive a share of this reallocation. To best ensure that the benefits of the GSF adjustment are equitably distributed, the Commission should use a "Rate Adjustment Factor" or RAF.

The Commission routinely used RAFs in adjusting the annual access tariff filings of all LECs prior to the beginning of price caps. It continues today to use RAFs to modify rates for rate of return based carriers.[7] It would be appropriate in the context of this Part 69 reallocation to use a RAF for price cap carriers. The Commission's rationale for modifying its Part 69 rules is that its current rules lead to uneconomic cost assignments. The Part 69 rules in question, however, were the same rules that were in place prior to the beginning of price caps. Accordingly, this mis-allocation was built into the rates that served as the starting point for price cap rates. Had the Commission corrected this mis-allocation prior to the beginning of price caps, it would likely have required that this adjustment be implemented as a RAF factor.[8] Had it done so, the initial price cap rates for Special Access would have been uniformly reduced to account for this mis-allocation, and thus use of a RAF factor here roughly duplicates the effect of correcting this mis-allocation before price caps took effect.

Moreover, use of a RAF factor ensures that all Special Access customers receive an equitable benefit from this reallocation, preventing the LECs from targeting the reductions only to favored customers and services. While it is possible that a pro-rata sharing of this reduction will not in fact return the full benefit of the GSF support currently paid by voice grade users and other LEC customers who have not received rate reductions in recent years, this process will at least ensure that those Special Access customers are treated no worse than more favored classes, while at the same

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7. For example, the FCC routinely uses Rate Adjustment Factors to modify the annual access tariff filings of rate of return carriers. See, e.g., 1992 Annual Access Tariff Filings, 7 FCC Rcd 4731, 4819 (1992).

8. See, e.g., MidYear 1986 Access Tariff Filings, May 20, 1986, at ¶¶ 28-30 (reallocation of Account 645 costs to reflect more cost causative principles implemented through RAFs); Annual 1989 Access Tariff Filings, 4 FCC Rcd 1347 (1989) (reallocations due to conformance of Part 69 with Part 36 implemented through RAFs).

time providing a fair and equitable rate reduction in the more competitive elements of the market.

Respectfully submitted,

TELEPORT COMMUNICATIONS GROUP

Robert C. Atkinson
Senior Vice President
Teleport Communications Group
1 Teleport Drive, Suite 301
Staten Island, N.Y. 10311
718-983-2160

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